

# Where Does the Gaming Money Go?

## Introduction

As the following information will demonstrate, taxes on proceeds from riverboat gambling revenues and admission fees generated by riverboat casinos have become an important source of funding for public education. However, riverboat gambling funds are not, nor will they become, a replacement for traditional sources of funding public education. This revenue serves its intended purpose, which is to provide something extra to help improve the current quality of education. This year's contribution to the foundation formula of \$157.8 million in riverboat gaming taxes is a substantial amount of money. Yet, when placed in the context of total spending on public education, it becomes clear that the gaming money, while significant, pales in comparison to general revenue and local property tax funding.

The table below compares riverboat gaming revenues to other sources of funding for the foundation formula. To further put this in perspective, one must understand that, on average, the foundation formula accounts for only about half of a school district's total operating budget. Local property taxes and federal funds supply the remaining operating capital.

**School Foundation Formula Funding  
The Effect of Riverboat Gambling Funds**



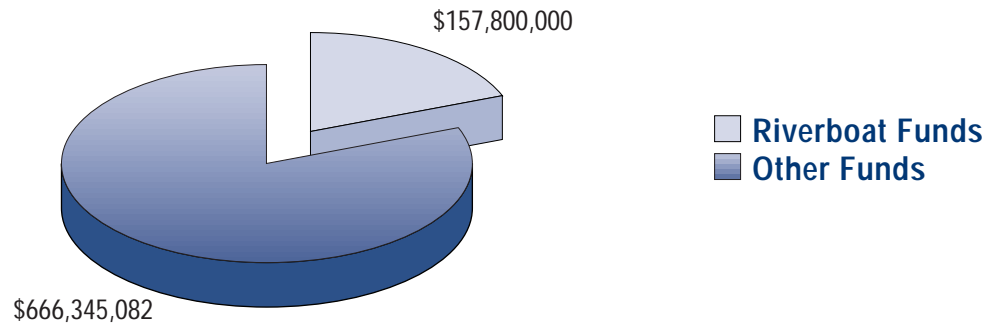
	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Total State Dollars								
Foundation Formula	\$878,525,749	\$964,768,249	\$1,056,485,706	\$1,246,104,930	\$1,431,104,930	\$1,505,856,393	\$1,560,410,960	\$1,788,913,331
Increase over FY 1993		\$86,242,500	\$177,959,957	\$367,579,181	\$552,579,181	\$627,330,644	\$681,885,211	\$910,387,582
% Increase Over FY 1993		9.82%	20.26%	41.84%	62.90%	71.41%	77.62%	103.63%
Increase Over Prior Year		\$86,242,500	\$91,717,457	\$189,619,224	\$185,000,000	\$74,751,463	\$54,554,567	\$228,502,371
% Increase Over Prior Year		9.82%	9.51%	17.95%	14.85%	5.22%	3.62%	14.64%
Increase Over Prior Year - Gaming Funds		\$0	\$0	\$50,000,000	\$71,200,000	\$16,600,000	\$0 *	\$20,000,000
% Increase Over Prior Year- Gaming Funds		0.00%	0.00%	26.37%	38.49%	22.21%	0.00%	8.75%
<i>Source: Office of Administration, Division of Budget and Planning</i>								

\* There was no increase in riverboat appropriations in FY 1999 due in large part to the fear that some facilities might be forced to close because of the *Akin v. MGC* lawsuit regarding boats in basins.

## School Foundation Formula

Source of Increase  
FY 95 to FY 00

Amount of Increase



The Commission does not suggest that the tax revenue from riverboat gaming is insignificant. In five years, taxes on gaming revenue and admission fees have contributed over \$725 million to the state treasury.<sup>21</sup> The Missouri Constitution requires that all state tax revenue derived from the conduct of gambling be used for public education.<sup>22</sup> Until recently, the admission fee, which is not derived from the conduct of gaming, has been used for a variety of purposes, primarily for programs benefiting the state's veterans.<sup>23</sup> However, because of recent legislation, the vast majority of the revenue collected from gaming facilities is now used to benefit public education, regardless as to whether it is subject to the Constitutional requirement. Perhaps most importantly, the gaming tax money helped to fund the new foundation formula adopted under Senate Bill 380 in 1995. Had the gaming money not been available to allocate to the foundation formula, the state would have to try to find other funds to replace it. This, of course, would result in either a failure to fully fund the formula or funding reductions in other areas.

The remaining information in this section provides a history of how the gaming money

<sup>21</sup> Source: Office of Administration, Division of Budget and Planning.

<sup>22</sup> Constitution of Missouri, Article III, Section 39(d).

<sup>23</sup> The admission fee is first used to fund the regulatory activities of the Commission. In addition, from 1994 to 1998, admission fees were used primarily to construct nursing homes for Missouri veterans. Finally, while the bulk of the admission fee is currently used for early childhood education and student loans, funds are also allocated to help fund nursing homes for veterans, the Missouri National Guard and programs for the homeless and to deter gang violence. The fee is not subject to the Constitutional requirement for gaming money because it is not derived from the conduct of gaming.

has come to be utilized. While gaming revenue has become an important component of the way Missouri funds public education, it has not eliminated the occasional need for some local school districts to ask for levy increases. Furthermore, gaming revenues do not generate enough money to replace traditional means of funding education. It has provided an important source of new revenue for education that has allowed all but the wealthiest school districts to add important resources used to educate Missourians.

### Use of Funds

During the five year tenure of riverboat gaming in Missouri, the tax money generated by the casino operations has been used for a variety of purposes related to public education. At first, there was a great deal of uncertainty about the amount of revenue that gaming would generate and whether the casino properties would be successful. Prudent policy makers chose at that time to allocate the gaming revenue for capital improvement projects at the state's colleges and universities that could be delayed if the revenue projections proved to be too high.<sup>24</sup>

As the industry stabilized and it became apparent that the Commission and the Division of Budget and Planning could forecast gaming tax revenue with reasonable accuracy, the legislature became more comfortable in using the funds for operational expenses. In 1995, the legislature enacted SB 301 which allocates the gaming tax revenue for the operation of public elementary and secondary schools.<sup>25</sup> According to law, the first \$7 million is used for the school bond fund with the remainder going to the school foundation formula, which distributes state funds to local public school districts.<sup>26</sup>

Since gaming revenues have been dedicated to the foundation formula, year to year increases in the formula have, on average, grown substantially. For the two years prior to the injection of gaming funds into the formula, it increased approximately 10% per year. Since the introduction of gaming funds, the formula increases have been as high as 38.48%.

The incorporation of new gaming revenues into the formula become more important when one considers that built into the formula are certain categorical add-on programs that will not be funded unless the foundation formula is fully funded. These add-ons include programs for special needs students, transportation, special education, gifted students, career ladder, vocational education and early childhood development programs. Without the \$157.8 million in gaming taxes allocated to the foundation formula in FY 2000, the state would have had to cut other programs in order to fully fund the foundation formula or allow these important add-on

<sup>24</sup> In FY 95-96, over \$56.2 million was appropriated for capital improvements for Missouri's colleges and universities. Improvements included numerous library improvements including the Kirkpatrick Library at CMSU as well as much needed maintenance and renovation projects in other parts of the state such as the renovation of Eckles Hall at the University of Missouri-Columbia.

<sup>25</sup> SB 380, adopted in 1994, directed up to the first \$50 million in riverboat gaming adjusted gross receipts tax to the foundation formula. SB 301 dedicates all the revenue generated by the state tax adjusted gross receipts of riverboat gaming to the foundation formula.

<sup>26</sup> The School Bond Fund is used by the Missouri Health and Education Facilities Authority to pay the costs associated with the issuance of local school district bonds and credit enhancement.



programs to go unfunded.

## Early Childhood Education

In addition to the tax revenue generated from gaming activity, the Commission also collects a \$2 admission fee for each patron attending each gaming session.<sup>27</sup> This fee is split between the home dock community and the state. The majority of the state's portion of the admission fee is used for early childhood education programs.

The Early Childhood Education and Care Fund (ECECF) was established by the legislature in 1998 through the passage of HB 1519 and 1165 and funds programs that prepare children for school prior to their enrollment in kindergarten. The programs are designed to allow more children the opportunity to enter school ready to learn. ECECF provides grants to public, private and parochial schools, to provide early childhood services to assist families in preparing their children with child care and educational arrangements that will prepare them for their formal education.

Research has shown that learning begins at birth and that early learning experiences have a decisive influence on brain development. Children who are not provided the opportunity for quality learning experiences may not develop crucial skills, which may significantly affect their ability to learn later in life. Focusing on early childhood care and education is critical as more than one-half of mothers return to work within one year of their baby's birth.

The Missouri Early Childhood program has been hailed as a model for the country. The expanded program is possible because of an additional \$58 million to be used to better prepare Missouri's children for school and to help provide care for the children of low-income working parents. Of the \$58 million in new money for early childhood programs, the majority is derived from riverboat gaming admission fees.<sup>28</sup> The new revenue allocation will provide funding for the early childhood education initiatives outlined in the blue box on the following page.

## Remaining Admission Fee Use

The use of admission fees is not confined to early childhood education. The funds are also used to pay for the cost of regulating the gaming industry; to deter gang violence and aid the homeless; to construct, renovate and maintain nursing homes for Missouri veterans; to aid the Missouri National Guard Trust Fund; and to pay for the cost of issuing college student loans.<sup>29</sup>

<sup>27</sup> Section 313.820, RSMo.



<sup>28</sup> The breakdown of funds is as follows: \$29.2 million from gaming revenue; \$10.5 million from general revenue; and \$18.2 million from federal funds.

<sup>29</sup> Section 313.835, RSMo.

# Early Childhood Education

In 1998, the General Assembly enacted the Early Childhood Education and Care Fund through the passage of HB 1519 and 1165. The act funds programs that prepare children for school prior to their enrollment in kindergarten. The following list summarizes some of the programs that are designed to better prepare Missouri's children to succeed in school.



- Ö \$8.7 million to expand child care subsidies to 3,500 additional low-income working families, bringing the total number of children receiving services to 52,740 each month.
- Ö \$6.5 million to increase fees paid to child care providers to improve access for low-income families.
- Ö \$3.3 million to increase the child care reimbursement rate paid to accredited facilities by 20 percent.
- Ö \$27.9 million for grants to schools and other agencies to expand or start early childhood programs. The programs include: \$22.9 million for Jump Start grants to schools and community partnerships to promote quality early childhood care and education for three- and four-year olds. Schools and community partnerships will begin new programs with startup grants of \$10,000 and expand or start programs at a cost of \$2,000 per child per year.
- Ö \$5.0 million to expand the Early Head Start program for 600 low-income families by providing funds to Head Start agencies that will contract with center- and home-based facilities to provide child care. The Head Start agencies will be responsible for training, technical assistance, and monitoring of the facilities.
- Ö \$891,934 to provide assistance to families and child care providers and to monitor results.
- Ö \$300,000 for grants to Community Colleges and Area Vo-Tech Schools to expand the availability of field-based Child Development Associate Certificate programs. Each year about six one-time grants of \$50,000 will be awarded for startup costs, with tuition covering the ongoing costs of the program.
- Ö \$66,500 to the State Library for the Reach Out program, which will provide libraries with resources and workshops to help child care

providers build literacy skills and enhance language development in young children. Funds will provide grants to 20 public and school libraries in rural and high-poverty areas of the state to purchase resource books and implement workshops for early childhood care and education providers.

- Ö \$4.6 million to increase state funding for the early childhood special education program, which provides services to three- to five-year old children with disabilities. These funds will expand services to an additional 222 children for a total of 6,947 children receiving services.
- Ö \$2.7 million for certificates to low-income at-home parents, allowing them access to early childhood education resources. This program will focus on children from birth to age three and families with incomes below 185 percent of the federal poverty level.
- Ö \$1.3 million for the healthy babies program. Funds will be used for a prenatal and early childhood nurse visitation program; evaluating various home visitation programs; and a public awareness campaign to educate and encourage pregnant women to seek early and regular prenatal care.
- Ö \$871,322 to improve children's health through better nutrition by providing grants to community partnerships for nutrition education and other local needs; training nutrition educators; and expanding the Farmers' Market Nutrition Program.
- Ö \$498,000 for a nurses home visitation program to reduce child abuse, unplanned subsequent pregnancies, and dependency on public assistance. The program will serve an estimated 166 low-income families.
- Ö \$400,000 to provide additional training for parent educators in the Parents as Teachers program.